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ABSTRACT

Public and independent colleges and universities are facing a fiscal and demographic crisis that has significant long-term implications. State revenue shortfalls are resulting in cuts for higher education as enrollments of traditional and nontraditional students are rising. This creates a "double whammy" situation: the challenge of doing more for many more with much less. All this must be accomplished while maintaining the integrity and value of the U.S. higher education system. The 1,600 private colleges and universities in the United States are also being hit with another twist. Some high-profile institutions have large endowments, but most independent schools have modest resources and rely heavily on tuition income to make ends meet. When a stumbling economy causes parents and prospective students to choose a public college over a private one, the already slim operating margin of the private school can narrow precipitously. Thus far, responses include: (1) raising tuition; (2) delaying capital outlays; (3) redirecting special revenues to general fund accounts; (4) postponing scheduled tax cuts; (5) increasing employee contributions to their health plans; (6) eliminating programs; (7) sweetening incentives for early retirements; and (8) laying off employees. Public and private institutions, small and large, wealthy and not-so-wealthy have all instituted one or more of these strategies. (Contains 23 references.) (SLD)

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Weathering the Double Whammy

How governing boards can negotiate a volatile economy and shifting enrollments

By Jane V. Wellman

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Association of Governing Boards of Universities and Colleges

WORKING PAPER FOR THE AGB NATIONAL CONFERENCE ON TRUSTEESHIP

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Dear Colleagues:

Citizen trusteeship of independent and public higher education is a venerable American tradition that has served the nation well—especially in times as challenging as those we face today.

The ***Association of Governing Boards of Universities and Colleges*** *is dedicated to strengthening the performance of citizen boards of public and independent higher education. Accordingly, we offer this National Conference on Trusteeship Working Paper as a vehicle to serve both sectors—and to strengthen communication and collaboration between them. By serving as a continuing-education resource to trustees and boards and by contributing to effective working relationships between boards and chief executives, AGB seeks to strengthen the governance of all higher education institutions.*

We offer this Working Paper to serve both independent and public higher education—and to strengthen communication between the sectors.

Currently, some 1,200 boards that hold policymaking responsibility for 1,800 colleges, universities, and other educational organizations are members of AGB. Included are boards of four-year and two-year public and independent colleges and universities, professional schools, seminaries and theological schools; boards of separately incorporated foundations affiliated with public colleges and universities; boards of statewide higher education coordination and planning agencies; advisory boards of institutions or campuses within multicampus systems; and several governing boards of prominent independent K-12 schools. AGB serves 35,000 individuals, including board members, presidents, and senior executives.

AGB's ***Independent Sector Programs*** *address a range of governance issues of interest to the diverse institutions comprising private higher education. Through workshops, institutes, on-campus programs, research, and publications, AGB offers information to enhance board leadership and effectiveness in all areas of board responsibility, including those addressed in this working paper.*

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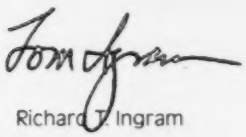
In addition, the AGB ***Center for Public Higher Education Trusteeship and Governance*** *promotes improved communication among leaders in higher education, state government, and others who are working to make higher education governance more efficient, effective, and accountable. The Center serves as a facilitator, convenor, and provider of consulting services and technical assistance on matters affecting public higher education governance, trusteeship, and institution-related foundations. In addition, the Center addresses state public policy affecting private colleges and universities—most recently in its facilitation of the Mississippi Leadership Summit on Higher Education, which included participants from both sectors.*

The Association of Governing Boards of Universities and Colleges expresses its appreciation to the Lumina Foundation for Education, which has made possible ***Weathering the Double Whammy****.*



Richard T. Ingram
AGB President

April 2002

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Executive summary

Public and independent colleges and universities are facing a fiscal and demographic crisis that has significant long-term implications.

State revenue shortfalls are resulting in cuts for higher education; the baby-boom echo is entering college; myriad immigrants and first-generation college students are now seeking higher education; and millions of current workers need to upgrade their skills.

Thus a double whammy: the challenge of doing more for many more with much less. And the challenge of accomplishing all that while maintaining the integrity and value of the world's finest higher education system.

The nation's 1,600 private colleges and universities are being hit with another twist. While some high-profile institutions still have large endowments, most independent schools have modest resources, and rely heavily on tuition income to make ends meet. When a stumbling economy causes even a handful of parents and prospective students to choose a public college over a private one, the latter school's already slim operating margin can narrow precipitously.

Thus far, responses include raising tuition; delaying capital outlay projects, freezing new hires; redirecting special revenues to general fund accounts; postponing scheduled tax cuts; increasing employee contributions to their health care plans; eliminating programs; sweetening incentives for early retirements; and laying off employees. Public and private, small and large, wealthy and not-so-wealthy institutions—nearly all have instituted one or more of those strategies.

Public and independent colleges and universities are facing a double whammy: the challenge of doing more—for many more—with much less.

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Unfortunately, such efforts—though they may accomplish the immediate goal of saving money—do not address the long-term problems of financing higher education. The trick is to develop long-term resource management strategies that ensure continuing investments in change, improvements, and collaboration—even with fewer resources. Many institutions will have to deploy new budgeting and planning tools, focusing sharply on the intersection between strategic academic planning and strategic institutional finance.

Institutions that succeed in navigating through these parlous times will be those that combine short-term strategies to balance their budgets with long-term investments to position themselves for the future. Board members will need to do everything they can to plan and operate strategically so as to attend to both agendas. Boards can help set the theme for budget decisions by asking their presidents and their administrators to present plans for current-year budget changes in the context of longer-term plans.

Board members will need to do everything they can to address short-term budget issues and long-term investment needs.

They can fulfill their obligations by seeking analytic information in several areas, communicating clearly with internal and external constituencies—and then making thoughtful, deliberate decisions to address their findings. This involves the following tasks:

1. Identify their institution's short-term and long-term challenges

Institutions beset with budget problems should first determine both the short and long-term causes. If the problems are mostly or entirely attributable to the current short-term recession, then short-term budget cutbacks, hiring freezes, and hiring deferrals pose relatively little harm to the fabric of the institution.

If, however, the budget problems are likely to be longer-lived, then institutions need to think about ways to protect investments even as they are making cuts. Their attention should be directed to stabilizing support for faculty and students, which are the two most valuable resources of any college or university. That means maintaining programs to recruit and retain faculty members who are essential to the institution's future programs, even as staff are offered early retirement incentives and buyouts. It also means continuing to invest in academic preparation and outreach programs aimed at prospective students—as well as in academic, financial, and other supports for current students.

2. Refocus their institutional mission, planning, and programming

Despite the problems they bring, budget crises also offer opportunities for both public and private colleges and universities.

In public institutions, tough budget times present political opportunities for proposing an agenda of deregulation and accountability, one designed to replace old transaction-

and-control regulation with a goal and performance-oriented approach. Boards of trustees can recommend a stronger role for accountability and performance measurement in a deregulated environment. They can suggest replacing rigid line-item budgets with block funds, institutional tuition retention, and carryover budget authority—as well as substituting negotiated performance agreements for review and control of individual actions such as equipment purchases and travel. They also can examine ways to work with system or coordinating boards to devolve some decisions to the institutional level.

Both public and private institutions can use troubled economic times as an opportunity to reduce funding for low-performing programs—as well as for focusing on mission, performance, and accountability.

Institutions and systems can take this opportunity to reduce funding for low-performing programs—and to focus on mission, performance, and accountability.

3. Assess and integrate their institution's tuition, aid, and outreach strategies

Tuition increases beyond inflationary adjustments may be inevitable, but only if they are handled properly will institutions avoid enrollment shock waves that can take years to stabilize. Rather than holding off tuition increases to the last minute, institutions will do better if they can announce possible increases at least six months in advance, and then back away from them if it turns out they can afford to.

Students and families are notoriously ill-informed about college costs, so they need significant education about the academic and financial planning necessary to attend college. Governing board members should also be vigilant in asking questions about their own institutional aid programs, as well as the institution's plans for tuition discounting.

4. Redouble their institution's commitment to cost management and cooperation

Budget problems can create incentives for institutions to pool resources with neighboring institutions to maintain or increase quality while cutting costs.

Educational technology means that such collaborations can occur with institutions in other states as well as with immediate neighbors. Sharing can extend from instructional and program collaborations (through joint-enrollment opportunities and distance learning) to administrative cost sharing, by means of pooled purchasing arrangements, shared technology planning, and other approaches.

To manage costs, to increase efficiency, and to keep tuition costs to a minimum, board members must understand that the fiscal challenges of the future will require consid-

erable attention to managing costs, to ensuring efficiency, and to keeping tuition increases as low as possible.

5. Pay attention to enrollment planning and management

Board members should keep attention sharply focused on enrollment planning and admissions policies, to ensure that the institution maintains its commitment to access and quality. They will want to know what the institution is doing to maintain partnerships with high schools and community colleges in its recruitment area. And they should pay particular attention to strategies focused on improving college-going rates among members of traditionally underrepresented constituencies: students of color, welfare recipients, and children of immigrants.

Boards should pay particular attention to improving college-going rates among members of traditionally underrepresented constituencies.

Another area of concern should be strategies that increase access for those students who must overcome significant societal and personal challenges to obtain their educations. The economy of the future will depend on such students, and it is imperative that they receive as much education as possible. If they do not, it is not only their future that will be bleak, but that of society as a whole.

Boards should carefully consider how their institution fits into their state's economic development strategy. Institutions also need to look at enrollment strategies for older, continuing, and graduate students. Diversifying the student enrollment base can also help to bring in older students with greater capacity to pay for higher education, particularly in postgraduate professional and certificate programs.

Putting it all together

All of those financial and programmatic debates and decisions will take place within a broader context that is grounded in the fundamental purposes of the world's finest higher education system. Now more than ever, governing boards are becoming publicly visible as the stewards for these institutions.

As with all complex endeavors, taking greater responsibility for setting institutional direction will be difficult. Effective governing boards will proceed deliberately but cautiously. They will examine carefully both new and tried ways of obtaining information and analyzing that information fully before they act. They will seek means by which programs, universities, states, and regions can cooperate to their own mutual benefit. And they will put aside the impulse toward protecting the status quo to find new paths for their institutions—new paths that will yield rich rewards.

PART 1: Identifying the issues

The nation's public and independent colleges and universities are beset today by a fiscal environment that promises to bring more problems than any recession in recent memory.

By three key measures—the number of state budget cuts, the dollar amount of the shortfall, and the gap as a percentage of state revenues—this budget crisis is more serious than occurred ten years ago, according to the National Governors Association. If the shortfall balloons to $50 billion—as analysts say it could—it will represent an unprecedented 10 percent of state revenues.

The effects on public higher education appropriations—and financial aid for ***all*** *students—have only begun to be felt. At the same time, the market has pushed average returns on endowments at the nation's independent colleges and universities into the negative range for the first time since 1984.*

For links to the most recent ***NGA updates and forecasts,*** *see Reference 17 on page 44. For a summary of the* ***most recent endowment study*** *from the National Association of College and University Business Officers, see Reference 15.*

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High-growth schools and systems will require whole new campuses—or their virtual equivalents—and creative collaborations across sectors. And ensuring access for the growing proportion of students with financial need will require more need-based financial aid.

Higher education has weathered bad economic times before. The dreary drills—campus budget cuts, freezes, layoffs, and tuition hikes—are all too familiar.

But what makes today's situation different from what went before is that the fiscal crunch is hitting at precisely the time the baby-boom echo is beginning higher education. And that growth is compounded by the rising demand from nontraditional students—those over-24-year-olds seeking to upgrade their skills—that now make up a majority of enrollments in postsecondary education.

In contrast, institutions coping with earlier recessions were able to cut back without jeopardizing either the education of the next generation or the training of the existing work force. And many public institutions are coping with reduced funding at the same time they need to expand to accommodate the coming wave of enrollment demand.

Unlike the 1990s slump, the current situation presents a number of state higher education systems with a double whammy: a budget crunch *and* sharply rising enrollments. In addition to the normal countercyclical uptick in college attendance, population growth and the increased awareness of the value of higher education are boosting enrollments even further—particularly in the fast-growing western states, and eastern states' urban centers.

The nation's 1,600 private colleges and universities also face a fiscal and enrollment double whammy—but it's a mix different from that of public institutions. While some 30 high-profile institutions still have billion-dollar-plus endowments, most independent schools have modest resources, and rely heavily on tuition income to make ends meet. When a stumbling economy causes even a handful of parents and prospective students to choose a public college over a private one, the latter school's already slim operating margin can narrow precipitously.

High-growth schools and systems will require new plant capacity—whole new campuses or their virtual equivalents—and creative collaborations across education (and non-education) sectors. Ensuring access for the growing proportion of students with financial need will require more need-based financial aid. And keeping pace with the learning styles of today's students will require continuing investments in instructional technology and development.

As if those economic and demographic challenges weren't enough, the September 11 terrorist attacks have affected universities deeply as well. Institutions have seen a jump in security expenses—and in the cost of screening international students more

closely. Those colleges that welcomed large numbers of students from abroad may see dips in demand, at least in the short term. And some students—or parents—may avoid institutions in areas perceived to be at risk of attack.

Even if the recession is short-lived, then, years may elapse before some state budgets and institutional endowments recover from the recent shocks. Helping institutions to do so will be the responsibility of board members all over the nation. Times have indeed changed—perhaps permanently—and will require new approaches.

The perils of bad decision-making during this critical juncture are all too real. The old ways of managing short-term budget problems could take higher education in precisely the wrong direction at the wrong time—away from the strategies that are needed to ensure quality and opportunity in the future.

The trick is to develop long-term resource management strategies that ensure continuing investments in change, improvement, and collaboration even as dollars are being cut. Boosting private fund-raising can help to buffer—but will not erase—the basic challenge. Many institutions will have to deploy new budgeting and planning tools, focusing sharply on the intersection between strategic academic planning and strategic institutional finance.

Governing board members must help lead their institutions through this difficult transition. Working with institutional executives and internal and external communities of interest, they must set the context and help provide direction for difficult decisions.

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How did we get here?

To help clarify the nature of the coming budget strains, let's distinguish among the several forces in play. Understanding the relative magnitude and pull of each will help board members decide the proper mix of short and long-term strategies for their institution or system. The factors include:

- **A recession** that is causing short-term revenue losses for both public and independent colleges and universities;
- **Structural gaps between state revenues and expenditures** that are eroding long-term state funding for higher education; and

■ **The costs of competition** for students and faculty across public and private higher education.

While recessions are both short-term and cyclical, the structural gaps and costs of competition are more enduring. Those forces affect institutions in different ways, depending on their location and the student markets they serve.

From boom to bust—and back?

After the longest economic boom in American history, the first half of 2001 brought a serious slowdown in overall growth, led by downsizing and cutbacks in the manufacturing and technology sectors. The tragic events of September 11 unleashed an additional round of economic shocks, resulting in an estimated $50 billion economic output loss. The economic damage has been worst in those states and regions that depend on technology and tourism.

Public-Sector Impacts. Spending overruns and revenue shortfalls are the cause of most problems at the state level. In 45 states, current-year revenues were below forecasted levels, and 28 states reported above-forecast spending—primarily in Medicaid—according to recent updates from the National Conference of State Legislatures and the National Association of State Budget Officers. In response to those conditions, at least 36 states have cut or frozen budgets. Seven states have convened special legislative sessions to address budget problems—and several others may follow.

For the most recent ***State Fiscal Outlook for FY 2002*** *from the National Conference of State Legislatures, see Reference 18 on page 44. For the latest* ***updates from the National Association of State Budget Officers,*** *see www.nasbo.org.*

Thus far, responses include delaying capital outlay projects, freezing new hires, redirecting special revenues to general fund accounts, delaying scheduled tax cuts, increasing state-employee contributions to their health care plans, sweetening incentives for early retirements, and laying off employees.

Despite such efforts, at least 37 states are heading into the 2003 fiscal year with revenue projections well below levels that would sustain current services—and would certainly not allow any new program initiatives. On average, state revenues are projected to increase by only 2.8 percent in fiscal 2003—less than half of the previous year's revenue growth. Because states *must* balance their budgets, such shortfalls translate to cuts.

The axe has already begun to fall:

■ At the 26-campus University of Wisconsin System, where undergraduate applications are up 10 percent, an escalating legislative budget battle spurred the Board of

Regents to temporarily suspend undergraduate admissions—and the state assembly to take another whack at the university's budget.

- Public institutions in Ohio, Missouri, and South Carolina have undergone budget cuts—and have instituted mid-year tuition increases.
- Washington Governor Gary Locke proposed that tuitions at the state's public colleges and universities be allowed to rise by up to 40 percent over the next six years.
- Virginia's deficit is causing mid-year cuts that may include layoffs—and tuition increases have been built into the budget lawmakers ratified.
- Kansas is considering tuition increases that could exceed ten percent.

While some states have floated tuition increase proposals for next year well above the inflation rate, many states are waiting until later in their budget cycles to determine the price point that will cover their budget gaps.

And some of the gaps are huge. California, for example, has already put targeted hiring and spending freezes into effect—and the university systems have taken a $100 million hit this year. But the state is facing a projected $17.5 billion budget gap for FY 2003—and in this election year everyone is tiptoeing around the potential impact on community colleges and universities.

As the national economy continues to show signs of recovery, it is instructive to recall that *state* revenues were down for more than a year after the early 1990s recession ended—and states continued cutting budgets for an additional 18 months. *(See "State Fiscal Recovery Lags: Then and Now," at right.)*

Independent-Sector Impacts. Larger and wealthier private institutions are better positioned to weather a short-term recession than are their public counterparts or smaller, less well-endowed private schools. When enrollments are steady, institutions have better flexibility to build up budget reserves. And they could be advantaged by rising public-sector tuitions in high-growth states as states look to private institutions to play a larger role in meeting enrollment demand. California is a case in point, where private institutions are expected to increase enrollments to accommodate a portion of future demand. To make this financially possible, the state has increased its maximum award for needy students in private institutions to $9,500, the highest in the nation.

State Fiscal Recovery Lags: Then and Now

1991

End of national recession

▷ Total state budget shortfalls were 6.2% of total general fund revenues

▷ *28 states cut enacted budgets*

1992

National economy on the rebound

▷ State budget shortfalls jumped to 6.5% of general fund revenues

▷ *35 states cut budgets*

2002

Bouncing back—or still stumbling?

▷ State budget shortfalls estimated at 7.8% of general fund revenues

▷ *36 states have cut or frozen budgets—up to 40 face shortfalls*

Adapted from National Association of State Budget Officers March 12, 2002, fact sheet, ***Quick Rebound? State Fiscal Recovery Could Be Gradual.***

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Small colleges with modest endowments in the most competitive markets will be hit particularly hard.

But because endowment earnings are down at most independent colleges and universities, many schools are substantially increasing their tuitions to cover revenue gaps. Baylor University has raised tuition by 33 percent over the level of the fall of 2001, for example. Because average returns from private institutions' endowments have dropped into the negative range—minus 3 percent—compared with average gains the year before of 13 percent, according to a recent survey by the Commonwealth Fund, other private schools are likely to follow suit, if less dramatically. To compound the situation, corporate and alumni contributions are also reported to be lagging behind those of previous years, reducing the ability of institutions to turn to private donations to bail them out.

Even large, prosperous private universities are not immune. To address a $20 million decrease in its general fund, Stanford University is planning for a five percent budget reduction in the coming year for all administrative and academic units. Harvard University is closing the Washington office of its Kennedy School of Government. And Emory University has directed its academic deans to eliminate programs and centers that are "not performing well."

Private institutions without substantial reserve cushions are in even more trouble. Small colleges with modest endowments in the most competitive markets for students—New England, New York, the Midwest, and some southern states—will be hit particularly hard. In order to maintain enrollments and quality, they will face difficult choices about whether to increase tuition discount rates—the percentage of tuition covered by institutional financial aid—protect funding for programs, or cut back across the board.

Furthermore, most small colleges across the nation report rising health-care costs, budget cuts, and staff and faculty reductions—all of which compound their fiscal woes. And they are taking those hits just as they may need to retool or collaborate in order to survive flat or declining enrollments and changing student program interests.

Long-term structural imbalances

Aside from a near-term fiscal picture made bleak by the recession, long-term structural problems hamper many states' ability to maintain funding for even the *current* level of higher education services—a major issue that most directly affects public colleges and universities.

Even without the effects of the recession, fully 40 of the 50 states face a projected gap between funding required to maintain support for higher education while at the same time paying for public programs such as Medicaid, K-12 education, and corrections, according to the National Center for Public Policy and Higher Education. (Those projections—made before the state and federal tax cuts of 2001—assume a normal pattern of a mild recession roughly once a decade.) The gap is caused by a 25-year wave of statutory and constitutional restrictions that limit legislative or gubernatorial flexibility on both the revenue and spending sides of the ledger.

For the late Harold A. Hovey's 1999 analysis of ***State Spending for Higher Education in the Next Decade,*** *see Reference 11 on page 43.*

The result? Revenues will grow more slowly than budget demands, placing public higher education spending—which is largely discretionary—on a glide path to ever-smaller shares of state revenues.

Even more troubling: the structural budget gap is severest in the 16 or so states that currently project double-digit growth in demand for higher education over the next ten years. That growth estimate is based on conservative projections of high school graduation rates, extrapolating from current conditions. If college-going rates continue to increase—as they have in the past two decades—or if the recession leads even more students to college rather than jobs, those numbers will jump higher.

For a snapshot of how the near-term budget shortfall compares with long-term structural budget gaps in sixteen high enrollment growth states, see Figure 1, next page. California, for example, which is addressing a $17.5 billion budget gap in fiscal 2003, has an estimated three percent long-term structural budget shortfall through fiscal 2006—compounded by a 21 percent jump in high school graduates through 2010. Even two states that so far have escaped the current budget crunch—Texas and Nevada—are still faced with structural budget problems and enrollment increases.

For Patrick M. Callan's paper on ***Coping With Recession: Public Policy, Economic Downturns, and Higher Education,*** *see Reference 4.*

Even in regions with more manageable growth trajectories, institutions expect to see big changes in the types of students they must be prepared to serve. *(See "The Changing Face of the Next Generation of College Students," page 13.)*

Figure 1:

High enrollment growth states are facing short-term budget gaps and long-term structural budget shortfalls

Current shortfalls in billions of dollars, structural shortfalls as a percent of state budgets

State	Estimated current shortfall (in billions)	Estimated structural state budget shortfall, 2000-2006	Percent change in high school graduates, 1999-2010
California	-$17.5	-2.8%	21%
New Jersey	-2.4	-3.3	20
Arizona*	-1.6	-10.5	34
Florida	-1.3	-8.8	26
Virginia	-1.3	-6.8	13
Washington*	-1.2	-6.7	19
Tennessee*	-1.1	-9.1	13
North Carolina	-0.7	-3.7	20
Oregon*	-0.7	-0.1	13
Georgia	-0.6	-6.5	25
Maryland	-0.5	-7.1	16
Colorado	-0.4	-7.0	15
Connecticut	-0.2	-0.4	15
Idaho	-0.1	-13.2	11
Nevada	0.0	-18.3	75
Texas	0.0	-7.8	12

**two-year shortfall*

Adapted from NASBO (2002) and Callan (2002).

The changing face of the new generation of college students

Across the country, institutions must continue to change in order to meet the academic and socioeconomic needs of the new generation of college students.

Nationwide, the number of undergraduates will grow by 19 percent through 2015—from 13.4 million in 1995 to about 16 million, according to a recent study from Educational Testing Service (ETS), *Crossing the Great Divide: Can We Achieve Equity When Generation Y Goes to College?* Many of these new students are young—but a growing number are adults upgrading their preparation for a fast-paced economy that requires new skills. And 80 percent of these 2.6 million new students will be minorities—African Americans, Hispanics, and Asian/Pacific Islanders.

According to ETS, the increase in African American undergraduates will be relatively modest—from 12.8 percent of students in 1995 to 13.2 percent in 2015. Asians on campus will grow from 5.4 percent of college students to 8.4 percent. Hispanic students will also increase dramatically, from 10.6 percent of 1995 undergraduates to 15.4 percent in 2015. The share of white undergraduates is expected to fall by 7.8 percentage points over that period.

In addition, the proportion of high school students from first-generation immigrant families is rising everywhere. That fact alone underscores the increased importance of early outreach and college recruitment efforts to ensure that these students finish high school academically prepared to succeed in college.

The number of families with children in poverty is also increasing, and that population is disproportionately represented among new immigrant families who hope to send their children to college. The result? Even more pressure on financial aid programs to serve economically disadvantaged families—and to redouble efforts to educate faculty and academic support staff in order to meet the educational needs of those students.

To serve the new generation of college students, early outreach and recruitment efforts are increasingly important.

The rising costs of the race for quality

In addition to short-term revenue losses and structural gaps between state revenues and expenditures, a third broad source of budget pressure on many institutions is the rising cost of competition.

Competition for quality has risen in the last decade, fueled by soft enrollment markets in regions with many private colleges, as well as intensified consumerism that cuts across all of higher education.

Public and independent colleges and universities have long competed for quality—in students, faculty, programs, and revenue sources. But that competition has risen in the last decade, fueled by soft enrollment markets in regions with many private colleges, as well as intensified consumerism that cuts across all of higher education.

National rankings of colleges and universities have become a major market force, for example. Rankings like those bestowed by *U.S. News & World Report* and others rate academic quality based on indicators such as the selectivity of the freshman admissions, faculty credentials, class size, and graduation rates. Despite many questions about the validity of such rankings, they have captured the public's attention—and have come to correlate with institutional resources.

For institutions in tight markets, there can be a real pay-off in moving up in the rankings in higher education—in student recruitment and alumni giving, for example.

So spending money to improve rankings can be a rational economic decision. In addition, there is a disincentive to do things that might result in losing rating points—lowering admissions standards or increasing class size to cut costs, for example.

Other factors besides the ratings race are contributing to the rising cost of quality. Throughout the country, institutions are engaged in serious efforts to improve their teaching and learning, investing in strategies that focus on learning goals and assessments of outcomes. Educational technology investments also are driving cost increases, though it is hard to pinpoint by exactly how much. One thing is clear: For the foreseeable future, technology *costs* rather than saves money for institutions.

The consequences of the student/price competition can be seen in national data about the cost of higher education. Price increases in private institutions are fueled in part by competitive spending on institutional aid to get the best students. Institutional aid, or "tuition discounting," is the practice of reducing "sticker" tuition prices for students through grant aid paid with institutional resources—from endowment earnings, or redirected tuition revenue, or other general-fund revenues. Some surveys estimate that tuition discounts go to 80 percent of private college and university freshmen—up

over 15 percentage points since 1990. The discounts have proven to be effective tools in student recruitment and retention, and so they are clearly an example of strategic investments for those institutions.

Discounting is steepest in the less selective private colleges, which compete for students in regional rather than national markets. Tuition discounts are either costs (in the form of institutional grants) or forgone revenue from tuition. Among private colleges, the average national discount rate is now 38 percent, meaning that only 62 cents out of each tuition dollar is available for general purposes.

Private institutions everywhere worry about the trends in discounting, and are looking for ways to back away from what has become a difficult habit to break. Institutions that decide to roll back tuition and institutional aid risk losing students to scholarship grants from competitor institutions. Many are trying instead to shift the revenue source for aid away from tuition to private gifts, putting even more pressure on private fund-raising.

Private institutions everywhere worry about the trends in discounting, and are looking for ways to back away from what has become a difficult habit to break.

Finally, the simple fact is that the largest percentage of college budgets—up to 75 percent—goes to faculty and staff salaries. For institutions with high tenure rates, that is a fixed—and long-term—expense, leaving little room for cutting. And if an institution "spends" a great deal on financial aid—or reduces income from tuition by steep discounts—there is little left for absorbing losses from enrollment dips or declines in giving.

Five steps your board can take to diagnose and act on challenges

Institutions that succeed in navigating through these parlous times will be those that combine short-term strategies to balance their budgets with long-term investments to position themselves for the future.

Board members will want to help their institutions avoid a natural tendency to follow the first law of higher education finance, coined by Howard Bowen 30 years ago: Institutions will raise all the money they can, and spend all the money they get. In tough times, when there is not enough money to cover essential and desired programs and services, they follow the second law of higher education finance, which is to cut budgets using the "onion technique": a layer at a time, crying as they go.

But boards can help universities disentangle themselves from the base-plus or minus approach to balancing budgets.

In an ideal situation, institutions have reserves to get through tough times without across-the-board budget cuts that treat high and low priorities identically. Even if they are not able to maintain sufficient funds for program growth, their decisions about ways to balance budgets are directed by a five- to ten-year vision of the future.

The oversight role of the governing board becomes critical in that environment, with boards helping their institutions to do everything they can to plan and operate strategically so as to attend to both agendas. Boards can help set the theme for budget decisions by asking their university presidents and their administrators to present plans for current-year budget changes in the context of longer-term plans.

They can fulfill their obligations by seeking analytic information in several areas—and then make thoughtful, deliberate decisions to address their findings. Above all, they must:

- *Identify their institution's short-term and long-term challenges;*
- *Refocus their institution's mission, planning, and programming;*
- *Assess and integrate their institution's tuition, aid, and outreach strategies;*
- *Redouble their institution's commitment to cost management and cooperation; and*
- *Pay attention to enrollment planning and management.*

By so doing, governing boards can meet their oversight responsibilities and help their institutions to effectively address educational, social, and economic challenges.

1. Identify short-term and long-term challenges

Institutions beset with budget problems should first determine both the short and long-term causes. If the budget problems are mostly or entirely attributable to the short-term recession, then short-term budget cutbacks, hiring freezes, and hiring deferrals pose relatively little harm to the fabric of the institution.

If, however, the budget problems are likely to be longer-lived, then institutions need to think about ways to protect investments even as they are making cuts. Their attention should be directed to stabilizing support for faculty and students, which are the two most valuable assets of any institution.

Institutions need to stabilize support for faculty and students—the two most valuable assets of any institution.

That means maintaining programs to recruit and retain faculty members who are essential to the institution's future programs, even as staff are offered early retirement incentives and buyouts. It also means continuing to invest in academic preparation and outreach programs aimed at prospective students—as well as in academic, financial, and other supports for current students.

Key questions board members should ask to sort out short-term and long-term challenges

- What are the trends in enrollment and retention, and how do these compare with those of your primary competitors?
- What are the main demographic trends in your region that are likely to influence future enrollment demand? How will this affect both the volume and changing characteristics of your student population?
- What are trends in institutional spending, by function? Are these consistent with your priorities and mission? Are there any areas in which spending can be reduced?
- What are the trends in enrollment and degree production by subject area or discipline? What do these trends indicate about current program strengths in contrast with student demand?
- What are the projections in your state for future funding for higher education? What components of this are within your control or influence—and which are not?

2. Refocus institutional mission, planning, and programming

Besides creating problems, budget crises offer opportunities for both public and private colleges and universities.

In public institutions, tough budget times also present political opportunities for proposing an agenda of deregulation and accountability, one designed to replace old transaction-and-control regulation with a goal and performance-oriented approach. Boards of trustees can recommend a stronger role for accountability and performance measurement in a deregulated environment. They can suggest replacing rigid line-item budgets with block funds, institutional tuition retention, and carryover budget authority—as well as substituting negotiated performance agreements for review and control of individual actions such as equipment purchases and travel.

Tough budget times also present political opportunities for proposing an agenda of deregulation and accountability.

On the academic side, some public systems have successfully devolved some decisions—on new programs and other strategic academic investments—to the institutional level.

Both public and private institutions have used troubled economic times as an opportunity to reduce funding for low-performing programs—as well as for focusing on mission, performance and accountability, as suggested by Robert Dickeson. *(See "Sifting Academic Priorities," next page.)*

Key questions board members should ask regarding mission, performance, accountability, and deregulation

- Do this institution's academic programs and public-service efforts reflect the values and goals expressed in its institutional mission?
- Is the budget strategically invested in mission-critical programs?
- When was the last time the institution or system undertook a comprehensive program-review process? What were the results? Can we push farther this time?
- Has this public institution or system made a strong case for deregulating some state controls in exchange for specific performance goals?

Sifting academic priorities

The following ten criteria—and a sampling of questions trustees can ask—can help campus leaders set academic priorities in the context of program and budget reviews.

History, Development, and Expectations. Why was the program established? What are its antecedents? What were the institution's original expectations? How has the program been adapted to meet student demographics? Would it meet the expectations the institution now places on new programs?

External Demand. In addition to measuring their own institution's data, leaders should examine peer-institution data. How are competing institutions meeting demand? What is the potential for future enrollments? Are program resources underallocated or overallocated? Does the program "supply" correspond to demand? What external forces affect the program?

Internal Demand. Many academic programs are necessary because they support other programs. What programs would suffer, possibly fail, without course demand from students taking other majors?

Quality of Inputs and Processes. Although there is a decided shift toward measuring what a campus accomplishes with resources, quality is best sustained when "value" inputs are also measured.

- **Faculty and staff.** What is the expertise and reputation of program providers?
- **Instruction by full-time faculty.** Is there a balance between the stability of full-time faculty and the flexibility of part-time faculty?
- **Students.** Is the program selective enough to attract prepared and motivated students?
- **Curriculum.** Does program curriculum match the complexity of the discipline? When was the last curriculum reform to consider the "knowledge explosion"?
- **Technology.** Does the program use technology to enhance learning, reinforce computer skills, attract technological support to the institution, and support research and public service?

- **Equipment, facilities, and other resources.** Are equipment and materials current?

Quality of Program Outcomes. What are the program's examples of exemplary performance? Do alumni records and placement data indicate program success? How well do graduates perform on professional licensure and certification examinations? Are undergraduates successful in seeking admission to graduate and professional schools?

Size, Scope, and Productivity. How many students are served? How many faculty and staff are assigned? What other resources are committed? How many credit hours are generated? How many degrees or certificates are awarded?

Revenue and Other Resources. Does the program generate resources from enrollments, subsidies for services they provide to other programs, research grants, fund-raising, equipment or capital donations, ticket revenues, and admission, laboratory, or user fees?

Direct and Indirect Costs. What are the direct and indirect costs associated with program delivery? Should the institution invest new resources in the program to sustain or create high quality?

Impact, Justification, and Essential Nature. Why should the program continue or be strengthened? Does the program help advance the institution's mission? Does it help the institution differentiate itself?

Opportunity Analysis. This criterion suggests how a program might enable the institution to seize opportunities. What external factors might create opportunities for the institution? Might a questionable program continue in a different format? Could restructuring or technological innovations save funds?

Robert Dickeson, senior vice president for higher education policy, research, and evaluation at the Lumina Foundation for Education and former president of the University of Northern Colorado, adapted these suggestions from his 1999 book, Prioritizing Academic Programs and Services, *for* Trusteeship *magazine.*

Focus on accountability and deregulation

Efforts to strengthen accountability systems and improve performance will be an integral part of higher education over the next decade. Whether born of the need for better consumer information or created in response to governmental accountability initiatives, attempts to objectify performance are part of a global trend.

That's not a bad thing: better use of performance measures can give institutional leaders improved tools for steering the direction of their institutions. And it can help those leaders negotiate a renewed public compact with government and other benefactors, and can provide a more stable basis for funding support. Measurable goals can also serve as a substitute for transactional and regulatory controls.

In light of those many benefits, most states have instituted some accountability system for higher education. Virginia, Colorado, South Carolina, and Florida—among others—are requiring all their public institutions to document performance on a set of common measures such as graduation rates, tuition and fees, expenditures of revenue by function, class size, remediation, graduate school admission, and job placement rates.

A number of states also use their performance indicators as the basis for budgetary reform and deregulation.

A number of states also use their performance indicators as the basis for budgetary reform and deregulation. In a deregulated performance-based system, institutions that meet performance standards are provided base funding on a lump-sum rather than a line-item basis.

In addition to base funding, many states are also tying new funding to performance on key state initiatives, such as increasing college-going rates, improving teacher preparation, and raising academic performance. Performance-based initiatives also are central to state efforts to improve student academic performance through seamless educational systems linking K-12 and postsecondary education—in Oklahoma and Kentucky, for example.

Accountability and private institutions. As a result of federal attempts to curb fraud in student aid, independent institutions are also part of federal and state accountability initiatives. Indeed, the federal government is the single biggest regulator of higher education. Initiatives to

streamline and deregulate federal aid while maintaining appropriate accountability are being led by many higher education associations in conjunction with the U.S. Department of Education. EASI—Educational Accountability and Standards Improvement—for example, is a project aimed at reducing reporting and compliance requirements for institutions that can demonstrate that they meet standards for effective administration of financial aid.

Independent institutions are also playing a voluntary part in some state accountability initiatives. In New Jersey, for instance, the Association for Independent Colleges and Universities has developed a protocol for all "public purpose" private institutions to voluntarily report on their contributions to meeting state needs.

Independent institutions are playing a voluntary part in some state accountability initiatives.

In addition, independent institutions are active participants in many state initiatives designed to strengthen the connection between K-12 and higher education. Indeed, in several states, private institutions have voluntarily agreed to be part of articulation agreements, and to adopt state curricula designed to increase the ease and number of transfers from two-year to four-year schools, and to improve graduation rates.

Oregon's deregulation/accountability deal. Oregon granted its higher education system a large measure of fiscal and operational autonomy in 1995, stopping just short of making it a fully independent public corporation. It permitted the system to undertake purchasing, contracting, and personnel management outside of the state government's central apparatus. In return, the Oregon University System (OUS) committed to serving 2,000 additional resident undergraduate students without additional general-fund support from the state—a goal it met by fall 1997.

An independent evaluation panel of managers from the public and private sectors estimated that the system saved $6.7 million in the first two years—primarily through potential costs not incurred in facilities contracting and procurement.

The review panel also found that delegated authority brought major process improvements. For example, enabling campuses to recruit directly

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Only by strengthening accountability and performance will systems and institutions be able to absorb projected increases in demand for higher education.

for specific jobs in their local markets—rather than relying on overly broad statewide applicant pools—shortened the time required to fill positions and boosted the share of applicants interviewed. An added benefit: the state changed some purchasing practices for other agencies.

The review panel reported that several factors contributed to the successful delegation of administrative responsibilities from the state government to the OUS. Among them were a strong commitment from the governor, the legislature, the Oregon State Board of Higher Education, and the OUS itself; the knowledge and skill of system employees; and initial investments in necessary new staff.

There were significant, near-term returns on those investments, as the volume of capital construction and improvement projects managed by the OUS provided a substantial foundation for efficiencies in contracting and purchasing.

More recently, the Oregon State Board of Higher Education has catalyzed changes in the system's budgeting and academic program approval processes. Meeting the goals of increased flexibility and collaboration across the system will strengthen individual campus autonomy as well.

In the late 1990s, a strong economy and a broad, shared commitment to boosting the skills of Oregonians led to a substantial infusion of new revenue. In return, OUS agreed to serve all eligible resident undergraduates while maintaining a tuition freeze.

As Oregon enters a new era of substantial cuts in the current biennium, the state system is still boosting performance through an instructive mix of components: strong executive and board leadership; knowledgeable staff with good working relationships; investments in planning, training, and information systems; and sufficient audits that hold the system accountable. Only by continuing such efforts will OUS be able to absorb an expected 10 percent increase in the demand for higher education over the next 15 years.

For additional information on the Oregon University System, see www.ous.edu.

ACE's Neal Johnson reported these Oregon developments in Trusteeship *magazine in 2001.*

3. Assess and integrate tuition, aid, and outreach strategies

Tuition increases beyond inflationary adjustments may be inevitable, but only if they are handled properly will institutions avoid enrollment shock waves that can take years to stabilize. Rather than holding off tuition increases to the last minute—as most public institutions do—colleges and universities will do better if they can announce possible increases at least six months in advance, and then back away from them if it turns out they can afford to.

Students and families are notoriously ill-informed about college costs, so they need significant education about the academic and financial planning necessary to attend college. Governing board members should be vigilant in asking questions about their own institutional aid programs, as well as the institution's plans for tuition discounting.

Those challenges have their roots in history. *(See "Steering in Troubled Times," next page.)* Unfortunately, they must be met in the present.

Students and families are notoriously ill-informed about college costs, so they need significant education about the academic and financial planning necessary to attend college.

Key questions board members should ask to address tuition, aid, and outreach strategies

- How dependent are we on charges for tuition as a revenue source, net of the financial aid we provide to our students? How has this figure changed over time?
- How strong are we financially, and what does this tell us about our tuition and aid policies?
- Should the size of our institution increase, decrease, or stay about the same? What would be the the implications of each alternative on the budget and on access?
- Have we taken a serious look at our long-term and short-term outreach strategies to diverse economic and racial/ethnic communities? If so, what have we done to strengthen our service and market development efforts?
- Is it possible to increase tuition, improve diversity, and prevent the exodus of middle-class students, yet still have adequate funds after meeting student-aid requirements to pay for program and facility improvements and increases in faculty and staff compensation?

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Steering in troubled times: Tuition and student aid challenges

Over the past 25 years, both public and private colleges have increased their tuitions and fees far above the rate of inflation. Those costs have outstripped the abilities of most families to pay for college without taking out loans—and have vastly increased the number of students who qualify for need-based grant aid. At the same time, federal funding for such need-based assistance—the foundation for state and institutional student aid since the 1970s—has changed, moving first from grants to student loans, and now toward tax-based instruments.

Understanding the causes and consequences of rising tuitions is the most important policy challenge facing higher education.

Understanding the causes and consequences of rising tuitions is the most important policy challenge facing higher education, as lawmakers both federal and state grow increasingly alarmed about high prices. Yet the structural demands on state revenues mean that higher education is likely to continue to see slow erosions in public tax support. Institutional leaders find themselves between the proverbial rock and hard place in those circumstances, attempting to increase tuition by the smallest amount possible while trying to expand financial aid to cover the increases.

Trends and differences in publics and privates. The reasons behind the increases in prices are somewhat different between public and private nonprofit institutions. Since 1975, current-dollar tuition and fees have gone up almost five-fold at public institutions, primarily due to reductions in state funding. When state appropriations have dropped—as in the early 1990s—tuition has spiked. *(See Figure 2.)*

While the rate of increase among private institutions over that period is lower, the dollar amount has been even larger, resulting in a huge increase in the "tuition-gap" between publics and privates. *(See Figure 3.)*

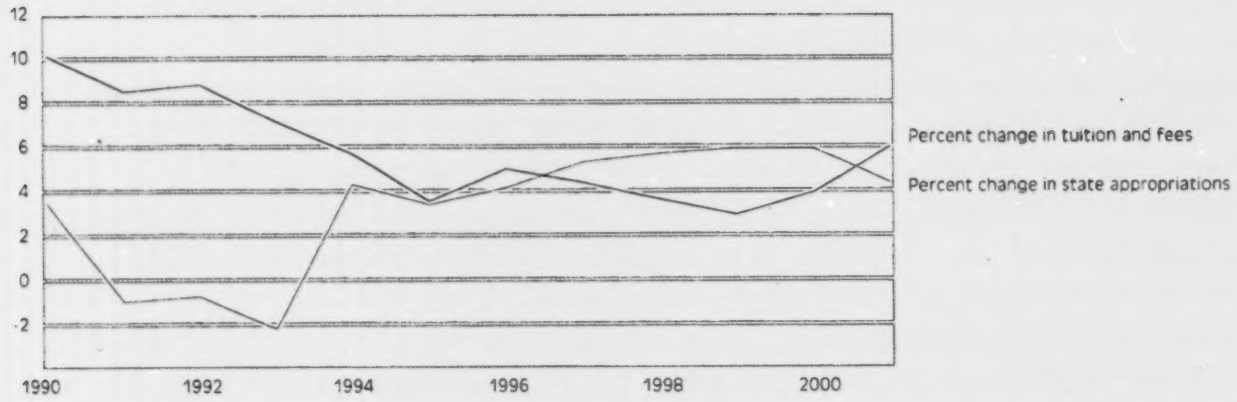
In 1976, students paid an average of $3,051 to attend private research universities for one year; today those charges have grown to $19,312, in contrast to comparable tuitions in the public universities of $689 and $3,754. The causes of the tuition increases in private higher education are more complicated than on the public side, but in general they result from cost and spending increases within the institutions for institutional aid, technology, and program and capital improvements.

(continued on page 30)

Figure 2:

When state appropriations drop, tuition jumps

Percent change from prior year

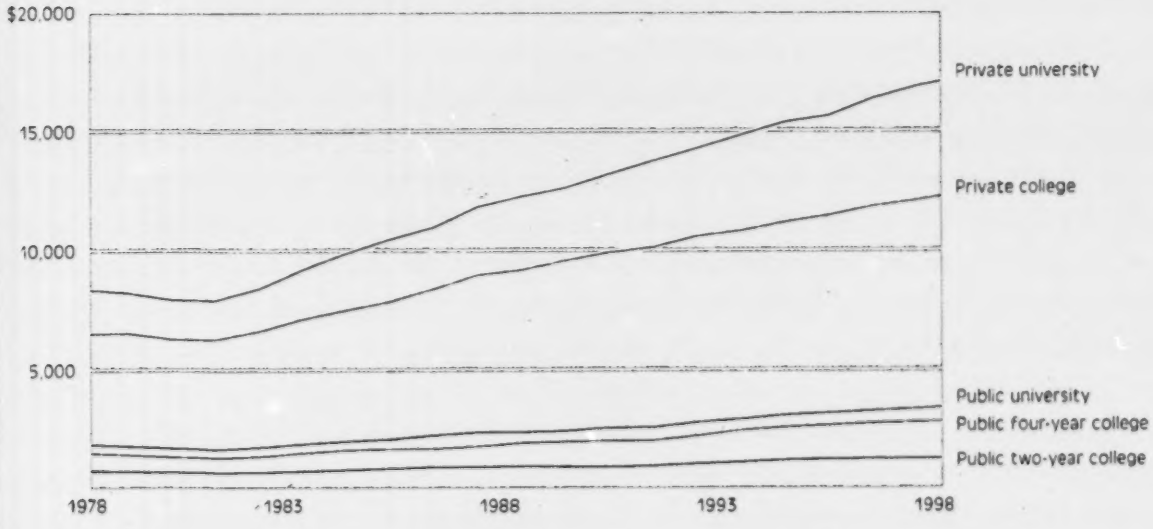


Adapted from AASCU and NASULGC (2002).

Figure 3:

The 'tuition gap' between public and private colleges and universities has grown

Average tuition and fees by institution type, in constant 1997-98 dollars



Adapted from U.S. Department of Education (1999) and U.S. Bureau of the Census (1998).

Steering in troubled times (continued)

Cutbacks in state revenues affect primarily public institutions, as state funding remains the largest single source of revenue to these institutions. (Even in public research universities, where state appropriations frequently are less than 50 percent of all funds, state funding and tuition revenues together constitute the primary sources of revenue for core instructional programs.) The cuts are coming on the heels of a succession of very good budgets for the majority of institutions, with per-FTE state funds rising on average by 11 percent in constant dollars over the 1996-2000 period.

Unfortunately, what goes up must come down. Higher education is funded as a discretionary budget item at the state level, and as such it is structurally (rather than politically) vulnerable to budget shortfalls because it does not have the protection of entitlement status. The share of state budgets going to higher education has slowly declined over the past two decades, and the proportion going to entitlements has increased. In 1987, for example, Medicaid accounted for an average of 10 percent of state spending, compared with 12 percent for higher education. By 1995, spending for Medicaid had increased to 19 percent, while funds for higher education had fallen to 10 percent.

The greater diversification of types of student aid means that the historic terms used to describe aid—need-based, merit-based, and tax-based—also have changed.

Since the 1980s, however, federal spending for Pell Grants has remained essentially steady, whereas other types of student aid have increased enormously. Grants to students that are awarded based on a combination of need, merit and other criteria—such as incentives for students to enter certain occupations, and private grant aid—have almost tripled over the past decade, as both states and institutions are increasingly using aid as a recruitment and marketing tool. In addition, tax-based funding has grown sharply, through the new federal tuition tax credit and through interest deductibility on student loans. And the federal government has expanded loan eligibility to students without regard to income, greatly expanding loan capital that is not limited to financially needy students.

The greater diversification of types of student aid means that the historic terms used to describe aid—need-based, merit-based, and tax-based—also have changed. The new mix still includes pure ***need-based aid,*** such as Pell grants and the federal subsidized loan programs. Another growing category could be termed ***combination aid,*** which includes a mix of both need and merit components, private aid programs, and occupation-specific pro-

grams. Institutional and state revenue constitute the lion's share of combination aid. The last category includes ***other funding instruments*** unrelated to student merit or need, such as tax instruments, the federal unsubsidized loan program, and aid to veterans. *(See Figure 4.)*

Strategies for the future. Governing board members have a crucial role to play in establishing institutional policies for tuition and aid that find the right balance among quality, equity, and competition.

Private college and university boards need to dig deep to understand their institutions' enrollment markets—and whether they're changing, static, or growing. Particularly if the competition has changed in the last ten years, a fresh look at recruitment and retention practices is in order. While many institutions direct most of their marketing efforts to the freshman class, for example, there may be an equal or greater payoff from boosting sophomore retention or recruiting third-year transfer students.

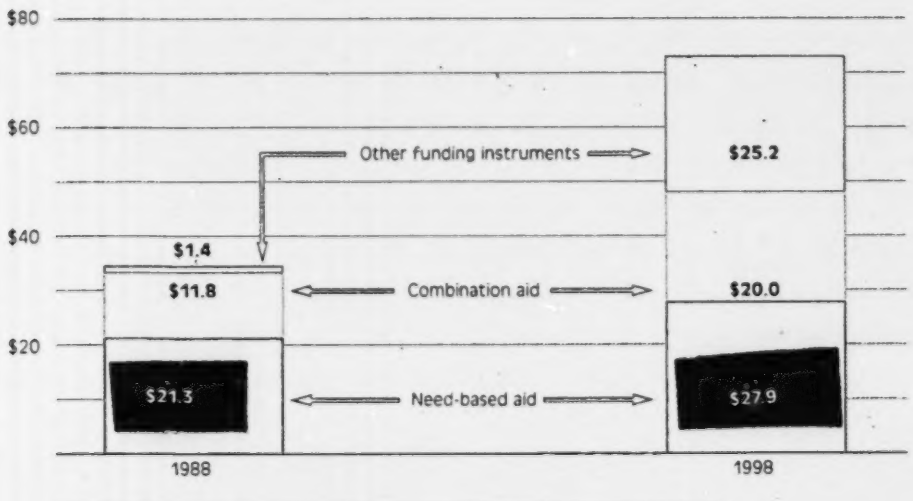
(continued on next page)

*For information on **trends in college prices and financial aid**, see Reference 7, on page 43, for the College Board's website materials. For details about **trends in tuition discounting**, see Reference 8.*

Figure 4:

While total student aid has grown, the mix has shifted

Total student aid in billions



Adapted from The College Board (2001) and the Internal Revenue Service (2001).

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Boards need to ensure that tuition and financial aid policies are up to date and integrated.

Public boards need to focus attention on tuition and financial aid policies. Ensuring that these policies are both up to date and integrated is a good place to start. Many public institutions have either weak or nonexistent tuition policies, as tuition levels are determined after the annual budget is set, and boards can invite political problems for their institutions if they propose tuitions in advance of the budget. In these cases, too, boards historically may not have been involved in student-aid policy, or in setting institutional responses to tuition increases.

North Carolina and California are exceptions. Both of these state higher education systems have a tradition of low tuitions, but have seen erosion in state financial support. In response, leaders in those states have established exemplary efforts in regard to tuition and financial aid policies.

North Carolina. In 1998, the Board of Governors for the University of North Carolina crafted a new tuition policy for UNC institutions, designed to bring a greater degree of rationality and predictability to the tuition process. Rather than proposing tuition levels after the state budget passes (usually only a few months before the fall semester begins) the board decided to propose tuition increases at the time that its budget proposal was submitted to the governor and General Assembly.

In addition, recognizing differences in programs, missions, and student populations at the various UNC locations, the board developed a framework within which it can consider and approve campus-specific differentials for tuition and fees. Furthermore, by developing a stronger need-based grant program for students and tying future increases in aid to tuition practices, the board ensured that need-based aid will grow at the same rate as tuition.

The North Carolina policy has not kept tuitions low, as the board has had to raise tuition on some campuses by as much as 40 percent in the past few years in order to maintain its historic commitment to in-state access and quality. As a result of the financial aid policy, need-based grant aid has increased as well, and enrollments continue to climb. Because of such tuition and aid policies, there has been a public discussion about the trade-offs between higher prices, cost cutting, access, and quality, making the UNC experience a standout in recent state efforts to address

*For additional information about the **University of North Carolina's tuition policy**, see References 24-25 on page 44.*

important issues—and an example of action rather than reaction to trying fiscal situations.

California. Lawmakers in California, with the active support of the private colleges in the state, took the lead in a redesign of the Cal Grants need-based financial aid program. Faced with political pressure to enhance merit aid as a basis for rewarding high school academic performance, and in light of the growing number of students with economic need, the state combined the two elements. The new program gives all needy students who are academically prepared to attend college a grant that can be used at either a public or private school in the state. By tying the maximum award to students attending private institutions to the cost the state would incur if it had to accommodate students in a public institution, the state is also using financial aid to encourage enrollment expansion among private institutions.

The maximum yearly award for the neediest students attending private colleges is $9,500, the highest maximum award for state aid in the nation. While private colleges need to augment a Cal Grant with institutional aid, the state support has reduced the amount of such aid private colleges must make available each year. To make sure families know that their children will not be denied access to college because they cannot afford it on their own, the state has engaged in an active outreach program.

Implementing the new Cal Grants has not been entirely smooth—demand has not been as great as estimated, and funds earmarked for it have reverted, which threatens its political support. Nonetheless, the state remains committed to the program, and believes that it has the potential to improve college access for low-income students.

While private colleges need to augment a Cal Grant with institutional aid, the state support has reduced the amount of such aid private colleges must make available each year.

*For additional information on the **Cal Grant entitlement**, see Reference 26 on page 44.*

4. Redouble institutional commitment to cost management and cooperation

Budget problems also create incentives for institutions to pool resources with neighboring institutions to maintain or increase quality while cutting costs.

Educational technology means that such collaborations can occur with institutions in other states as well as with immediate neighbors. Sharing can extend from instructional and program collaborations (through joint-enrollment opportunities and distance learning) to administrative cost sharing, by means of pooled purchasing arrangements, shared technology planning, and other arrangements.

Educational technology means that such collaborations can occur with institutions in other states as well as with immediate neighbors.

To manage costs, to increase efficiency, and to keep tuition costs to a minimum, board members must understand that the fiscal challenges of the future will require considerable attention to managing costs, to ensuring efficiency, and to keeping tuition increases as low as possible. *(See "Focus on Cost Management: Cost Analysis and Cost Control," next page.)*

Key questions board members should ask to improve cost management and collaborative efforts

- How does the institution spend its money, and how do those patterns compare with those of benchmark institutions?
- Are we as an institution, system, or state in need of a fundamental overhaul? In what areas? Or are we doing reasonably well and only need to make some adjustments?
- Are there ways to improve the productivity of administrative and academic functions without detracting from the quality of what we do?
- How can we ensure there is adequate quality in the basic functions of teaching, research, and service to our students and the community? What are the costs and benefits of implementing quality control systems?
- Has our institution formed partnerships aimed specifically at containing costs or sharing resources? Would we benefit from doing so?
- Are there ways collaborative efforts can enhance—and not detract from—our ability to compete?

Focus on cost management: Cost analysis and cost control

To manage costs, ensure efficiency, and keep tuition increases as low as possible, board members will need to strengthen their institutions' commitments to internal, analytical financial information. In addition, they will need to reduce unit costs while maintaining program quality. The following strategies may help in those difficult tasks.

Cost measurement. Colleges and universities are enormously complicated financial institutions, operating with subsidies paid by a state or drawn from an endowment, supplemented by tuition and other sources of revenue. Those funds are spread across many different program and administrative units, some of which have access to more external resources than others, and operate in highly decentralized and entrepreneurial environments. Thus understanding basic cost and revenue centers, and getting a handle on how an institution uses its resources to accomplish core functions, can be a challenge.

Understanding basic cost and revenue centers, and getting a handle on how an institution uses its resources to accomplish core functions, can be a challenge.

Financial statements are typically presented at a level of aggregation that obscures rather than reveals basic internal cost structures. They also can fail to give board members or other policymakers the necessary context to make sense of an institution's financial profile, such as might derive from comparative analysis. But some institutions do share financial information on a confidential basis. One of the oldest of those endeavors is the Consortium for Financing Higher Education (COFHE), a group of 31 private colleges and universities in New England.

Other such collaborative attempts grew from a 1997 congressional study of the reasons for tuition increases, which recommended the development of new tools to measure costs within higher education. Such tools, the commission felt, would allow institutions to better understand their own revenue patterns and decisions, as well as to explain them more clearly to policymakers and the public. Several cooperative ventures have taken up that challenge.

The first example of such an effort was initially funded by the federal Fund for the Improvement of Postsecondary Education and is based at the University of Delaware. The goal of the project is to measure the costs of instruction for participating institutions and to provide comparative information. To do so, analysts compare revenue and expenditure data submitted voluntarily—and confidentially—from some 300 public and private institutions.

*For additional information on the **Delaware Project**, see Reference 29 on page 44. For more about the **NACUBO cost of college project**, see Reference 14.*

Another other major effort to improve cost measurement has been sponsored by the National Association of College and University Business Officers (NACUBO). It helped 150 institutions to develop a simple method to present data on undergraduate instructional costs.

Sharing costs through collaboration. Inter-institutional collaborations have long been crucial to American higher education. Such ventures allow participating institutions to share resources for certain ventures, to contain costs, and also to expand access and quality. They are particularly helpful in maintaining high-cost, low-demand courses or programs, for example. In addition, consortia can reduce costs by allowing small institutions to obtain the benefits of scale typically available only to larger entities. Institutions are also able to share expertise, such as in educational technology, when the cost of talent can be prohibitive for a single institution.

The Five-Colleges Consortium is one of the oldest of such ventures. Made up of the University of Massachusetts at Amherst and four neighbor institutions—Mount Holyoke, Smith, Amherst, and Hampshire—it facilitates a variety of cost-sharing measures for students, faculty, and the community. Students can take courses not offered at their home campus at a member institution, for example, and a shared library facility allows rare, expensive books to be purchased collectively. The institutions also share arts and community service programs, and are seeking ways to collaborate on technological innovations as well.

Indeed, technology is allowing new kinds of regional and national collaborative arrangements in academic programming and administration. The Associated Colleges of the South, for instance, provides a "virtual classics department" that allows students at any of the member colleges to complete a major in classics, even though each of the individual departments is quite small.

Another example is the Teagle Foundation's Collaborative Ventures Program, which has funded several dozen projects designed to encourage technology-facilitated collaboration among small institutions. Within one of those projects, small colleges in Wisconsin, Ohio, and West Virginia have formed a separate organization to share hardware and software resources, which has saved each of the institutions a significant amount of money. Kentucky has a state-sponsored virtual university, and Massachusetts has distance-learning programs for a number of its two-and four-year schools .

*For additional information on the **Five Colleges Consortium**, see Reference 27 on page 44.*

*For descriptions of the **cooperative programs of the Associated Colleges of the South**, see www.colleges.org. For links to a description of the **Massachusetts Distance Learning Consortium**, see Reference 28. For more on the **Kentucky Virtual University**, see www.kyvu.org.*

5. Pay attention to enrollment planning and management

The last decade has brought partnerships between K-12 and higher education, with many states investing significantly in collaborative efforts. If the past is prologue, however, those efforts may soon be labeled "nonessential" because they are not part of core instructional programs. But cutting funds for those strategic initiatives is tantamount to a farmer eating his seed corn. They are exactly the types of investments that institutions need to make—no matter how tough the financial times.

Board members should keep attention sharply focused on enrollment planning and admissions policies, to see that the institution maintains its commitment to access and quality. They will want to know what the institution is doing to maintain partnerships with high schools and community colleges in its recruitment area. And they should pay particular attention to strategies focused on improving college-going rates among members of traditionally underrepresented constituencies: students of color; welfare recipients; and children of immigrants.

Another area of concern should be strategies that increase access for those students who must overcome significant societal and personal challenges to obtain their educations. The economy of the future will depend on such students, and it is imperative that they receive as much education as possible. If they do not, it is not only their future that will be bleak, but that of society as a whole.

Boards should carefully consider their state's economic development strategies when examining their student pipelines. What do their states see as their economic future? How can the higher education system boost prospects for that future? Boards must be careful, however, not to slight the humanities and social sciences in favor of technological areas. The nation needs a well-educated citizenry, not just a highly-trained workforce.

Institutions also need to strengthen enrollment strategies for older, continuing, and graduate students. In markets that have fewer 18-to-21-year-old students, many institutions have shifted their focus to serving those new populations. Diversifying the student enrollment base can also help bring in older students with greater capacity to pay tuition—either by themselves or through employers' programs—particularly in post-graduate professional and certificate programs. But doing so may require new instructional techniques, new types of student services, new investments in technology—even new faculty more experienced in teaching such students. Boards will need to carefully weigh the benefits and costs of changing their institutional pipeline.

Boards must focus on strategies that increase access for those students who must overcome significant societal and personal challenges to obtain their educations. The economy of the future will depend on such students, and it is imperative that they receive as much education as possible.

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Key questions board members should ask to address the enrollment planning and management issue

- Where do our institution's incoming students come from? At what point in their education—freshmen? Juniors?
- What is our institution's retention rate? What has it been over the past five years? If we have trouble holding on to our students, what plans are in place to boost the retention and attainment levels of qualified students?
- What outreach programs does our institution support in our community or on campus targeting middle school or high school students? How are we reaching out to working adults who wish to upgrade their skills?

PART 3: Putting it all together

The focus of this paper is the fiscal and enrollment double whammy that awaits college and university board members in the months and years ahead. But those financial debates and decisions will take place within a broader context that is grounded in the fundamental purposes of the world's finest higher education system.

Tension over free speech and First Amendment rights is on the rise, as institutions strive to balance academic freedoms with legitimate national security concerns. Students, legislators, parents, and members of the public of all nationalities and political persuasions will hold boards and universities accountable for their words and their actions in this climate. Tensions and rhetoric will run high—as they already have.

Still, this is an extraordinarily rich teaching moment for our society—and an opportunity for institutions to constructively serve their many constituencies. Campuses across the country are renewing their commitment to be centers of civic education and debate for students, faculty and staff—as well as for communities eager to learn more about our history, the world's history, and myriad cultures. Now more than ever, governing boards are becoming publicly visible as the stewards for these institutions.

Cooperation—across institutions and sectors—will be a crucial ingredient in institutional survival. It won't be easy: for many institutions collaboration is an unnatural act. But failure to do so could hamstring an institution's future while crippling it in the present.

As with all complex endeavors, taking greater responsibility for setting institutional direction will be difficult. Effective governing boards will proceed deliberately but cautiously. They will examine carefully both new and tried ways of obtaining information and analyzing that information fully before they act. They will seek means by which programs, universities, states, and regions can cooperate to their own mutual benefit. They will

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put aside the impulse toward protecting the status quo to find new paths for their institutions.

It is a burdensome role, but one that will yield rich individual and societal rewards.

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—*Jane V. Wellman*

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Thus a double whammy: the challenge of doing more for many more with much less. And the challenge of accomplishing all that while maintaining the integrity and value of the world's finest higher education system.

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